



Advanced  
Biofuels  
Association

April 15, 2015

The Honorable Orrin Hatch  
Chairman, Committee on Finance  
United States Senate  
Washington, D.C. 20510

The Honorable Ron Wyden  
Ranking Member, Committee on Finance  
United States Senate  
Washington, D.C. 20510

Dear Chairman Hatch and Ranking Member Wyden:

On behalf of the Advanced Biofuels Association (ABFA), representing over 30 of the world's most innovative advanced and cellulosic biofuel companies and leading biomass feedstock providers, we appreciate the opportunity to provide our comments on business-energy tax policy. As this complex discussion advances, ABFA is prepared to constructively engage with you and your staff to help develop a tax code that encourages innovation and job creation. Our members are developing and commercializing a wide range of technologies, feedstocks, and molecules to produce renewable, lower carbon fuels and chemicals that will move our nation closer to achieving energy and economic security.

The ABFA supports tax policies that are technology neutral, promote the utilization of sustainable feedstocks and support subsidy parity to ensure all viable advanced biofuels can compete with the benefit of a level playing field. The current debate over corporate tax reform is confusing to our companies, their investors, and the marketplace. Given the diversity of technologies and feedstocks available it is clear that a "one size fits all" approach will not work. It is also very difficult for new industries in their infancy to compete with industries, such as the oil industry, which have had decades of embedded tax benefits and are fully depreciated and running only on operational cost.

In 2014, over 2.8 billion gallons of ethanol equivalent gallons of advanced and cellulosic biofuels were produced. However, our outdated tax code and lack of certainty hindered additional production. Advanced and cellulosic biofuels are an important part of America's energy portfolio. Because they are produced from renewable sources like plants, algae, waste, animal fats and other forms of biomass – not petroleum or fossil fuels – advanced biofuels can complement rising domestic oil and natural gas production. Defined by law as high-performing sustainable transportation fuels, most advanced biofuels are engineered to go straight into existing planes, trains and automobiles, utilizing many of the existing infrastructure. Similarly, renewable chemicals made with similar processes and feedstocks also reduce greenhouse gas emissions and displace oil byproducts.

In the last six years, US businesses have spent \$14.72 billion dollars in pursuit of advanced biofuels. According to Bloomberg, \$33 billion has been invested world-wide in this sector over the last four years. These numbers represent people and jobs all over America: jobs in rural America planting and cultivating the best new energy crops, jobs building and operating biorefineries, engineering jobs developing new and innovative technologies, to name a few. However, renewable fuels are only 7% of the US fuel pool and in order to finance a plant in today's world, companies must be able to show a return on investment and compete directly with those fuels already in place. That is where the tax code can be extremely helpful in providing a range of support to help finance these long-term investments.

Our Association represents both large and small companies, in different places in the value chain. From this perspective it is clear one size does not fit all. For larger companies with significant balance sheets, Production Tax Credits have worked well in a number of sectors and are viewed favorably. For smaller companies the Investment Tax Credits have more flexibility and are more effective in attracting investment. This also applies to the development of renewable chemicals. Others in the sector benefit from the continued extension of Blenders Credits as they help provide margin lift.

With advanced biofuels on the cusp of commercialization, tax incentives are more important now than ever. Sustained tax credit policy can help level the playing field for new, innovative technologies competing with mature technologies in the marketplace. Advanced biofuel tax credits have been an important and effective tool in pulling these technologies to the brink of commercial deployment – at very little cost to the taxpayer. We must ensure that the momentum built in the initial phase of these incentives is carried to fruition. These first-of-a-kind biorefineries can provide the blueprints for rapidly scaling up production of fuels, energy and chemicals from renewable biomass. Once a strong first wave of these facilities is able to demonstrate the technology at commercial scale, private capital for a broad national deployment will follow. However, the track record over the last several years has not been a good one in terms of extending the credits, such as the second generation tax credit for cellulosic fuels. In addition, changes to the alternative fuels mixture credit have made it more difficult – even when extended – for many advanced biofuels companies to take advantage of their use.

There are compelling reasons to reform, rather than terminate, the advanced biofuel incentives in the tax code. Many of the companies creating new technologies and building factories and biorefineries are currently generating losses, and thus would be ineligible to benefit from reductions in the corporate income tax rate for many years. While we expect many of them to eventually become profitable, this will occur only after they have obtained financing for, and constructed, one or more commercial scale facilities. For this reason, we need comprehensive tax reform not simply the lowering of corporate income tax rates.

Further, virtually all of the tax provisions supporting advanced biofuels are temporary, and expired at the end of 2014. Consistent with previous testimony provided to both House and Senate tax committees, this lack of long-term predictability associated with the incentives is one of the critical flaws in current law and makes them relatively feeble market drivers. Developers of advanced biofuel biorefineries, for instance, generally discover that the credits are slated to expire years before their prospective facility can be placed in service. For this reason, financiers

are generally unwilling to count the value of the tax incentives when calculating the potential viability of planned facilities. Consequently, tax incentives enacted as part of a comprehensive tax reform package must be permanent, or at least extended for such a long time as to cover the period where the industry could reasonably be expected to place its first generation of biorefineries in service.

Finally, some of our members are extremely interested in seeing renewable chemicals receive a more favorable tax treatment, similar to those provided to biofuels and the other incumbents in the energy space. Legislation such as the Master Limited Partnership Parity Act (S. 795, 113<sup>th</sup> Congress) sponsored by Senator Coons has garnered support from our organization and we believe would provide some companies the financial structure they need to achieve parity with the incumbent industries they compete against.

Many in Congress, on both sides of the aisle, have called for an "all of the above" energy strategy for America. Utilizing advanced and cellulosic biofuels strategically benefits the United States by delivering a diverse and secure energy mix. No other option in this space can guarantee long-term jobs and production, clean sustainable performance and the seamless use in our existing infrastructure. With world energy demand rapidly rising, advanced biofuels help extend our political and economic leverage with foreign nations and hedge against volatility in certain unstable regions of the world.

In the event the Congress embarks on a full rewrite of the tax code, we would welcome the opportunity to be actively engaged and helpful in your mission. Well structured, technology neutral tax incentives will likely be the difference for some of our companies in opening up new commercial plants in the United States or overseas.

Again, we thank you for the opportunity to submit comments and for your important work to help build a stronger, more efficient tax code.

Sincerely,



Michael McAdams  
President  
Advanced Biofuels Association